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SUBJECT: BRUSSELS BILAT BREW: JULY 1, 2008

¶1. Summary: This issue of the Brussels Bilat Brew covers a review of cost-of-living adjustment and social benefits in Belgium as well as the desire for increased competition in the food, power distribution and telecom sectors in order to counter Belgium's rising inflation rates. Farmers, taxi drivers and members of truckers' unions hit the streets to protest the rising cost of living. The telecom industry in Flanders is seeing its share of competition between Belgacom and Telenet, who are bidding for control of Interkabel. Finally, the EU Commission has released its review of the Belgian budgetary predictions for 2008 and 2009. End summary.

Automatic COLA - Status quo or Change?

¶2. With eroding purchasing power and pressure on the national budget, Belgium's automatic cost-of-living adjustment of wages and social benefits is under review. Belgian employers are required to provide automatic cost-of-living increases based on what is called the health index. The index essentially reflects inflation minus food and fuel costs. This year the COLA is based on 2.1 percent health index price rise compared with an overall inflation rate of 5.2 percent. Parliament recently pressed Prime Minister Leterme on the future of this program. Leterme argued that required COLAs inject 1 billion euro (\$1.57 billion) annually to shore up disposable income. Facing questions on covering spiraling fuel costs, Leterme added that no government could fully compensate for energy increases. In a meeting with Ambassador Fox, Minister of Enterprise and Economy VanQuickenborne echoed Leterme's support of the existing COLA system. National Bank Governor Guy Quaden struck a slightly different tone, arguing that a better system would differentiate the COLA between lower and higher wage earners. He called for cents, not percents, for the higher paid. The future of the automatic COLA will again be a central theme of bi-annual negotiations between employers and unions this fall on the nationwide collective bargaining agreement for the private sector for 2009-2010.

More Competition in Belgium's Future

¶3. Minister of Enterprise, Economy, and Simplification of Administration Vincent VanQuickenborne told Ambassador Fox and emboff that he seeks broader competition in the food, power distribution, and telecom sectors. Soon he will auction spectrum for a fourth cellular phone provider, and he emphasized he would do it for more if more providers were interested in the Belgian market. With inflation at 5.2 percent, VanQuickenborne wants to tackle food and fuel sectors. Belgium's inflation is higher than that of its neighbors. VanQuickenborne observed that small shop owners

dominate current policy. VanQuickenborne would like to end restrictions on sales (only held for one month each twice a year) and on Sunday opening hours (all but a few stores must close on Sunday). The minister would like to see an end to restrictions on prices as well. Currently stores are not permitted to sell any item below cost, even to move a product that might expire soon. In the electricity sector, VanQuickenborne echoed his attacks in the press on the high distribution taxes communities place on the distribution of electricity and natural gas.

Unions in the Streets

¶4. The high cost of living brought Belgians to the streets. Farmers, taxi drivers, and truckers blocked the major entryways to Brussels and tied up traffic in the center of town to protest rising fuel costs, and, in the case of the farmers, declining net revenues for them. Belgian food shoppers are paying more for items in their regular shopping trips and may be changing their buying habits. Smaller cities Namur, Arlon, and Hasselt saw protests as well.

Interkabel: Telenet Maintains its Offer

¶5. Belgacom, the national phone company, is prepared to morph itself into "cable" in order to counter its competition in Flanders. Telenet, the main cable and internet provider

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in Flanders is competing with Belgacom for Interkabel, the inter-municipal satellite company (Integan, Interelectra, WVEM and PBE), that represents one-third of the cable industry in Flanders. Just 24 hours earlier, Belgacom announced a non-binding counter-offer of 420 million Euros, 70 million dollars larger than an earlier offer made by Telenet. It is unclear how the four companies that make up Interkabel will react to the Belgacom offer. At the end of last year, they concluded a project agreement with Telenet allowing Telenet to take over their television broadcasting clients by the end of June 2008. Meanwhile, the Belgian government plans to hire a headhunter to replace Belgacom CEO Bellens whose term expires at the end of June. Bellens' board put him in a minority position, accusing him of not being aggressive enough regarding foreign takeovers.

Employment Update - Budget Blues

¶6. Bad news for the Belgian government: the European Commission estimates that Belgian objectives for a balanced budget in 2008 and 2009 will not happen because GOB assumptions for employment and inflation are overly optimistic. Says the European Commission: "The budget result could be worse than what is projected. The changes in salaries and increase in consumption could have led to an overestimation of tax revenue," reports the European executive for whom the "supplementary measures" will be necessary in order to reach the budget goal. For the Commission, it's the long-term budget impact of the aging population, including pensions and health care, that threatens the realization of the objectives. Recent reports show the so-called Silver Funds to beef up pensions for the aging population are inadequate. The retirement age in Belgian is one of the lowest in Europe, and citizens resist a change. Looking to 2011, Belgians want to continue the rapid reduction of the Belgian public debt, which fell to 85 percent of GNP in 2007. The goal is to reduce the debt ratio to 71 percent by 2011. Speaking of the budget, the Belgian Employers Federation claims that Belgium has 72,000 civil servants in surplus compared to the EU average of civil

service employment (not counting teachers).

FOX

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